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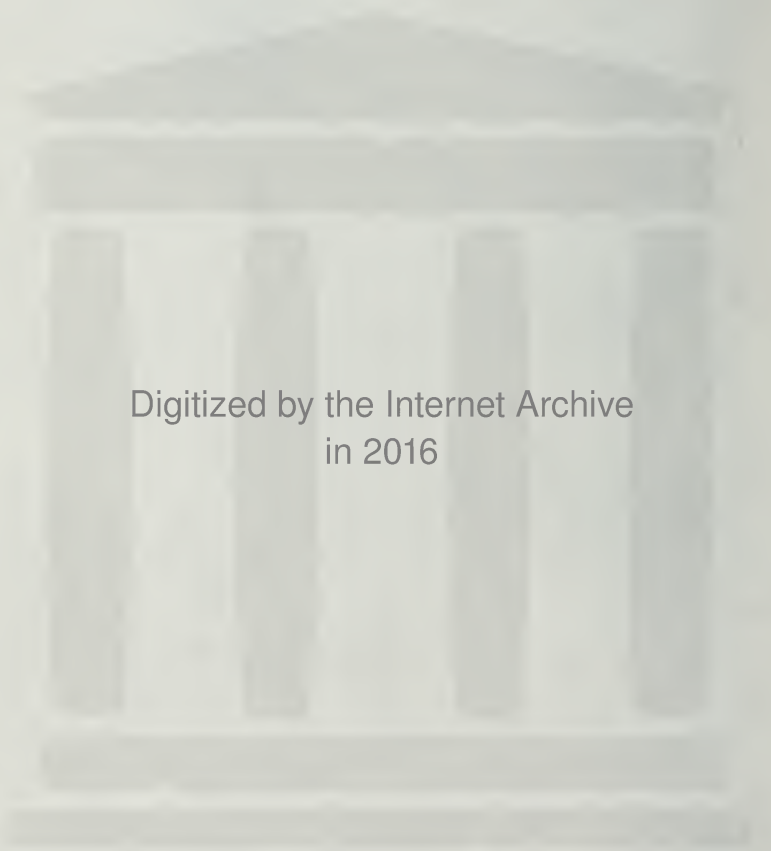
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ILLINOIS HISTORICAL SURVEY

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MESSAGE

To The

4TH SPECIAL SESSION

58th GENERAL ASSEMBLY

ILLINOIS

By

HENRY HORNER

GOVERNOR

NOVEMBER 19, 1934

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MESSAGE OF GOVERNOR HENRY HORNER TO THE FOURTH SPECIAL SESSION OF THE FIFTY-EIGHTH GENERAL ASSEMBLY

To the Members of the Fifty-eighth General Assembly of the State of Illinois:

It is with sincere regret that I have been obliged to again convene the General Assembly in extraordinary session.

This General Assembly has already been in session over twelve months of this biennium. During the past few difficult years the problems of the State and its subdivisions have been greatly increased and these problems have in large measure necessitated emergent legislative consideration. The people of our State are indebted to you for your sacrifices and faithful service for the public welfare in these troublesome times. It has become necessary to convene the General Assembly now in extraordinary session, for the consideration of one matter which could not well be delayed until the regular session in 1935.

The Retailer's Occupation Tax Act which has been in effect since July 1, 1933 will end July 1, 1935 unless it is extended by legislative action. The proceeds of this tax for the first six months of its existence were used to furnish emergency relief to the unemployed in this State. After that period, the proceeds were, by that Act, applied to the expenses of the State government, which previously had been met by taxation levied by the State upon real estate and personal property.

ELIMINATION OF STATE PROPERTY TAXATION.

In this manner the State was able for the first time in its history to dispense with a State property tax, saving property owners over thirty million dollars annually. This action was the first major constructive legislation to reduce the heavy tax burden which rested principally on homes and farms and other real property. If the Retailers' Occupation Tax Act is not extended prior to the meeting of the State officers charged with the duty of computing and certifying State property taxes, it will be necessary for them to determine and certify a property tax for this fiscal year, to be collected in 1935; and property taxes in 1935 and each year thereafter will be increased by some thirty million dollars. If the retailers' tax is continued, there will be no State property tax certified, thus demonstrating conclusively that it is not an additional tax, but is entirely a replacement tax.

IMPROVEMENT IN STATE FINANCES.

At the beginning of this administration, the financial condition of the State was desperate. Several factors were responsible. The assessed valuation of property in the State had declined from a little less than

eight and a half billion dollars in 1930 to a little more than five and a half billion dollars in 1933. Property owners in increasing numbers were unable to pay the heavy taxes imposed and the percentage of tax delinquency increased greatly. In addition, the delay of tax collections in Cook County, caused by the reassessment of 1928, meant that the State must wait more than a year for approximately one-half its current revenues derived from its property tax. The general revenue fund and certain other funds in the State treasury were exhausted and had borrowed and used by means of anticipation notes some fourteen million dollars from the motor fuel fund. Even with this borrowing the State could not meet its obligations promptly. Discounts for prompt payment were lost. Arrangements had to be made to care for maturing bonds at higher rates of interest.

As soon as the receipts from the Retailers' Occupation Tax were available for the necessary expenses of the State government, the financial condition of the State treasury rapidly improved. It brought into the treasury a certain, prompt and predictable monthly income. Naturally, the credit of the State improved and its securities became more desirable and sold at a premium. Of the fourteen million dollars borrowed from the motor fuel fund, nearly ten million has been repaid. Maturing bonds and interest and other State obligations are paid promptly when due.

BENEFIT TO COMMON SCHOOL FUND.

Not only the general revenue fund and bond funds have benefited but other funds in like proportion.

In the last few years through the defects existing in the property tax system, moneys paid into the common school fund for the grade schools throughout the State were not sufficient to meet the amount appropriated. In some years only 70 per cent or less of the annual appropriation was available for distribution to the school districts. Now, by reason of the Retailers' Occupation Tax legislation, each month one-twelfth of the annual school appropriation is transferred to the common school fund, thereby insuring that each year the full amount appropriated will be available for distribution. The grade school districts will receive annually several million dollars more than they were actually receiving from the property tax.

OTHER MERITS OF THE RETAILERS' OCCUPATION TAX.

In addition to the advantages to the State itself, already mentioned, the Retailers' Occupation Tax has merits when considered from the standpoint of sound taxation principles, to some of which I briefly refer. The tax-paying public pays only in small amounts instead of being obliged to accumulate funds for a single annual or semi-annual tax payment, and thus, it is far less burdensome than taxes on real estate and personal property. At the same time, the payments into the State treasury come in steadily to meet current needs instead of building up huge balances at one or two times during the year.

As between counties, the State property tax was grossly inequitable. Theoretically property throughout the State was supposed to be assessed at its fair cash value. As a matter of fact, that assessment varied from about 20 per cent to 75 per cent of the real value. Unfortunately this variation operated to the disadvantage of the poorer counties. They were obliged to keep their valuations high to secure enough taxes for local needs and consequently, with disproportionately high valuations, they paid a disproportionate share of State taxes. This unfairness, of course, disappears when the State steps out of the property tax field.

In considering the relative advantage of different taxation systems, one feature which should not be overlooked is the comparative cost of administration. After some fifteen months of operation in this State it has been shown that the Retailers' Occupation Tax can be collected efficiently for about 2 per cent of the receipts.

This kind of tax whether called a sales tax or an occupation tax is of comparatively recent development in the United States. Yet in the last few years, in one form or another, it has been adopted in more than twenty states, and a number of them have been modeled after our Act. Still other states are contemplating like action. This is an emphatic tribute to the merits of this method of raising revenue.

CONCLUSION.

When a tax on the occupation of retailing tangible personal property was first proposed in Illinois, it was an experiment so far as our State was concerned, and considerable opposition was voiced. However, after more than fifteen months of experience with it, it has been found practicable and efficient. Of course, payment of taxes in any form, like other duties of citizenship, are necessary and indispensable in exchange for the services that government furnishes to the individual and for the privilege of living in an orderly civilization. No tax is of itself popular. It can only be said to be popular in the sense that it is preferred over other taxes. In this sense, the Retailers' Occupation Tax has met with favor in Illinois. Property owners have welcomed this important step for their relief which has eliminated the State tax from their tax bills.

We must still seek further means by which local property taxes may be reduced. To a large extent the rehabilitation of realty values will depend upon our success in this regard. To my mind, it is unthinkable that we shall take the backward step of discarding our present constructive and beneficial method of obtaining State revenues.

The issue is clearly before you. The responsibility rests entirely with you. By your action you will either extend the Retailers' Occupation Act or again place the burden of a State tax on the homes and farms and other real estate and property of the State.

I earnestly recommend and urge that you pass speedily the necessary legislation to continue the Retailers' Occupation Tax Act and thus prevent a return to a State tax on property in Illinois.

Respectfully submitted,

HENRY HORNER, *Governor.*

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